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Energy Industry Changes, Regulatory Implications: A "Downstream" Perspective

- Marilyn Showalter, Chairwoman
- Washington Utilities and Transportation Commission

- Natural Gas Conference, Portland, October 21, 1999

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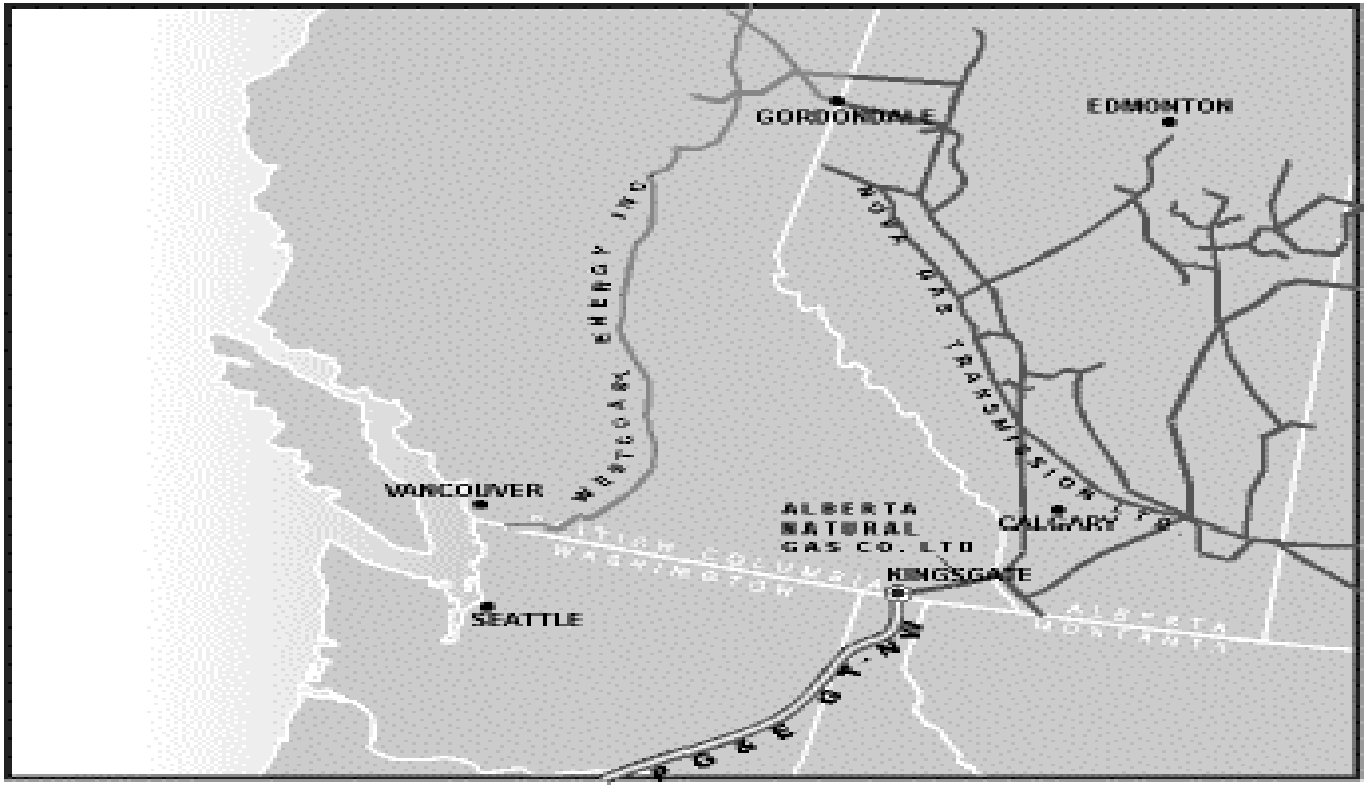
Canadian gas pipelines, PNW customers



Map courtesy PG&E Gas Transmission

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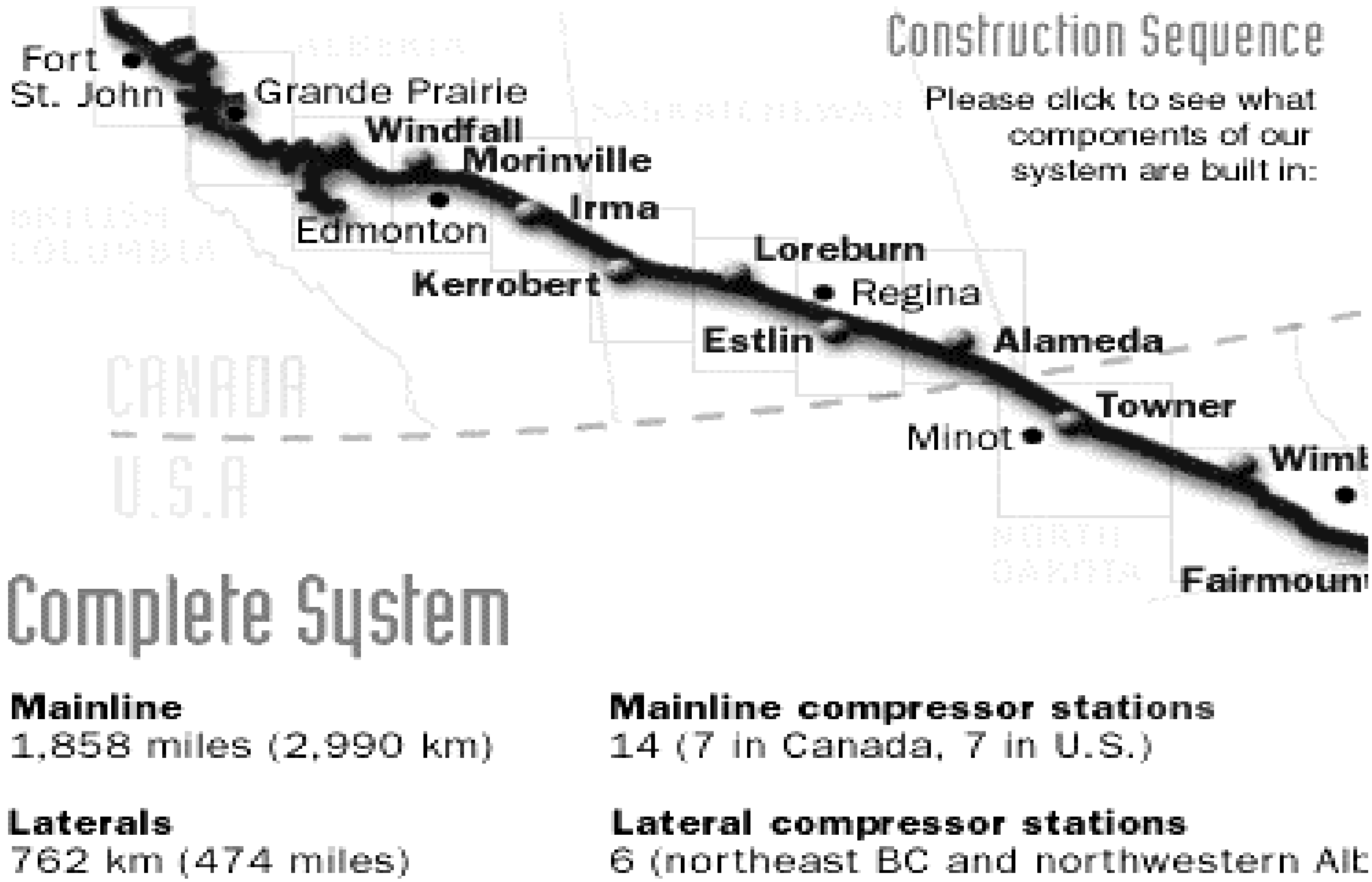
Change: New Pipelines, New Markets

- New pipelines will deliver BC, Alberta gas to Midwest markets and beyond.

Alliance Pipeline:



Map courtesy Alliance Pipeline

Implication: New price risks

- Pacific Coast prices will move with Midwest demand, weather
- Regulators, customers may have to deal with higher, more volatile prices
- Will PGAs still work?
  - Incentive regulation?
  - Real time prices?

Change: Shorter term LDC time horizon

- Shift to shorter-term perspective by retail distribution companies
- Preference for spot market, short tern contracts
- Pipelines still rely on long-term contracts to finance capacity

Implication: LDC access to capacity?

- LDCs may not be able to participate in expansion
- Pipeline access to capital?
- Regulators may need new rules for access (FERC?)

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Change: Electricity generation

Change: Electricity generation

- More reliance on natural gas as a fuel of choice for generating electricity
- Product of several factors:
  - Natural gas industry deregulation
  - Wholesale electricity competition
  - Improved gas exploration technology
  - Turbine technology improvements.

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Implications: Gas-fired electricity generation

- Storage may become more valuable, require “fair access” rules (FERC).
- Gas supply reliability in cold weather may take on new importance.
- Regulators may need to approve new services for electric utilities.

Change: Electric restructuring

- Gas industry preceded electricity.
- Electricity restructuring is a continent-wide trend.
- OR and MT have restructured.
- WA and ID have studied, but not restructured.

Implications: Electric restructuring

- May push retail access in gas industry.
- Regulators will approve new tariffs (unbundled rates, “portfolio” options)
- May cause “re-bundling” of services with electricity (gas, consolidated billing)
- Combined gas/electric utilities may have different response than stand-alone utilities.

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Change: Business realignment

- Energy business structure moving in many different directions:
  - Mergers of gas and electric companies
  - Acquisitions
  - Divestiture
  - Holding companies

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Implications of Business realignment

- Are transfers in the public interest?
- Jurisdictional issues
- Stranded cost, competitive market issues

Change: Least-cost planning

- Least-cost planning arose under different regulatory, industry
- Greater competition, structural and regulatory changes since then.
- Planning may need new methods, goals.

Implications: Least-cost plans

- When does least cost planning make sense?
- Distribution companies focus on distribution reliability
- Integrated companies assess least-cost ways of managing customer supply risks

Change: New technologies

- Fuel cells, distributed generation
- Potential competition for “monopoly” distribution companies
- Similar to cellular, cable impacts on telecommunications?

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Implications: Technology change

- Fuel cells, modular on-site generation may create new demand for gas.
- May accelerate need for electric retail ancillary services (voltage support, etc).
- Regulator will need to assure fair pricing, interconnection standards.
- Regulators don't want to discourage - should we encourage?
- Could DG ever replace the grid?

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Reintegration of utilities?

- What happens if pendulum swings back?
- Essential public interest in adequate affordable energy
- Industries will change, so will regulation!